



# Common Pitfalls of Fraud Investigation

PRICEWATERHOUSECOOPERS 

# Increase Respect for What You Do

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# Develop a World Class Investigations Group

“The detection of fraud is the most important portion of the Auditor’s duties, and there will be no disputing the contention that the Auditor who is able to detect fraud is a better man than the auditor who cannot. Auditors should, therefore, assiduously cultivate this branch of their function.”

paradigm

# **Paradigm to Break**

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**Auditors**

**Can Detect More Indicia of**

**Fraud**

**Without Much Retooling**

# **Paradigm to Adopt**

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**Fraud Investigations are a  
Specialty...**

**Requiring the Talents of...**

**Highly Trained and  
Experienced Professionals**

## **Resulting Action**

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**Rely on a Separate Team  
of Fraud Investigators...**

**To be Deployed Upon  
Learning of Suspicions of  
Fraud...**

**Regardless of Where They  
Are Discovered**

# Your Challenges

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- Staff Turnover/Rotation
- Lack of appreciation for Specialty
- Institutional Relationships @ Risk
- Cost Justification

# **Why Go Through The Trouble...**

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**If You are Serious About  
Detecting Fraud**

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**It's the Only  
Sensible Approach**

# **Your Opportunity Awaits ...**

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**So what can you do to stem the  
tide of this fraudulent  
epidemic and be more effective  
at the task at hand?**



*Profile:*

# Characteristics of the White Collar Criminal

- Older (30 + years)
- 55% male, 45% female
- An appearance of a stable family situation
- Above-average (post-graduate) education
- Less likely to have criminal record
- Good psychological health
- Position of trust
- Detailed knowledge of accounting systems and their weaknesses
- Prior accounting experience

**“Do”**

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# **Exercise Professional Skepticism**

# **SAS 99 - Importance of Exercising Professional Skepticism**

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“Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. The auditor should conduct the engagement with a mindset that recognizes the possibility that a material misstatement due to fraud could be present, regardless of any past experience with the entity and regardless of the auditor’s belief about management’s honesty and integrity.”

***SAS 99, Paragraph 13***

# **Tom Golden Truism # 1**

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**“You can be as skeptical as you want,  
but if you don’t know what it’s like,  
first hand, to be on the other side of  
deceit, then you have absolutely no  
chance of finding fraudsters or  
identifying their footprints.”**

**ECUADOR**

**“Do”**

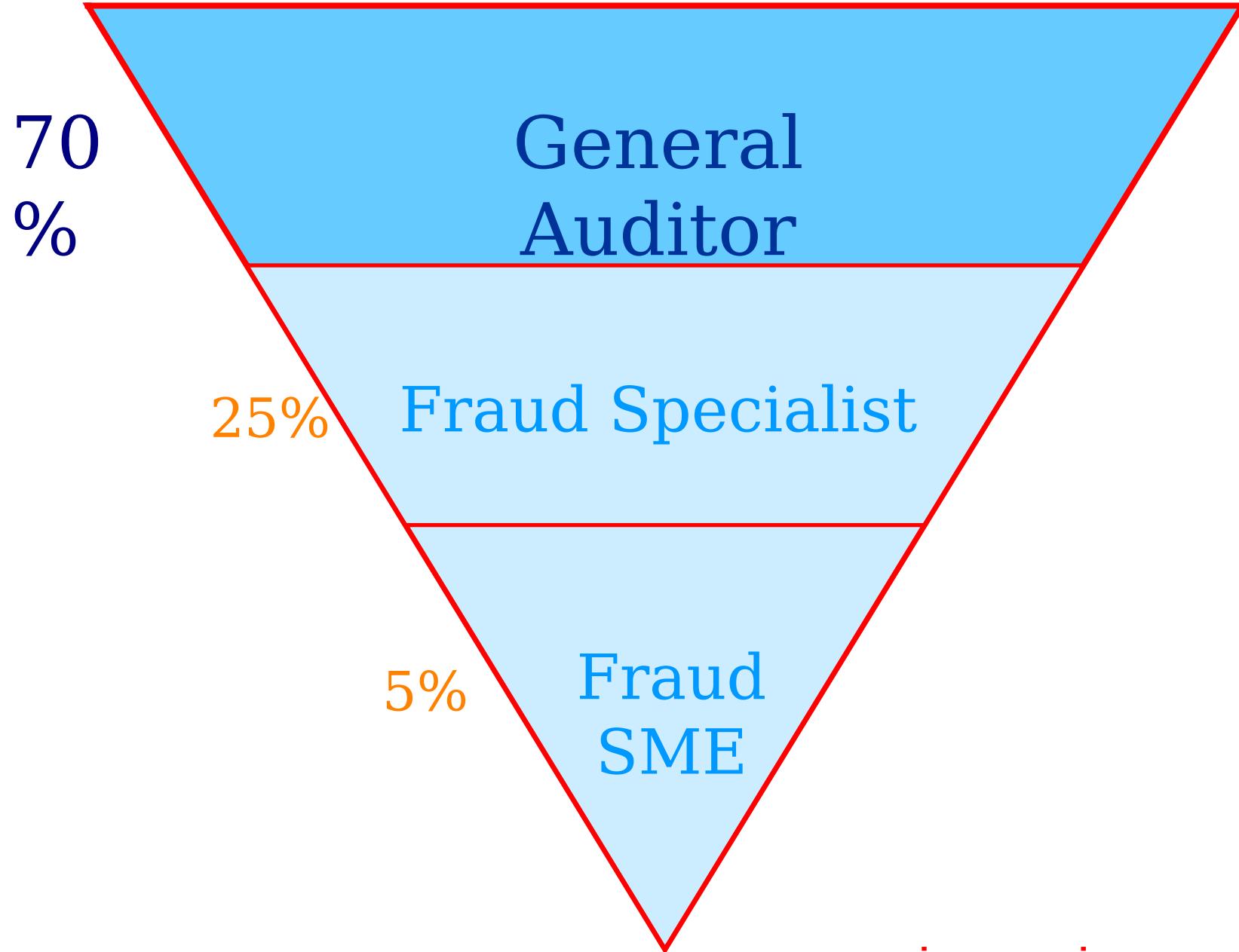
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**Set-up**

**Forensic Accounting  
SWAT Teams**

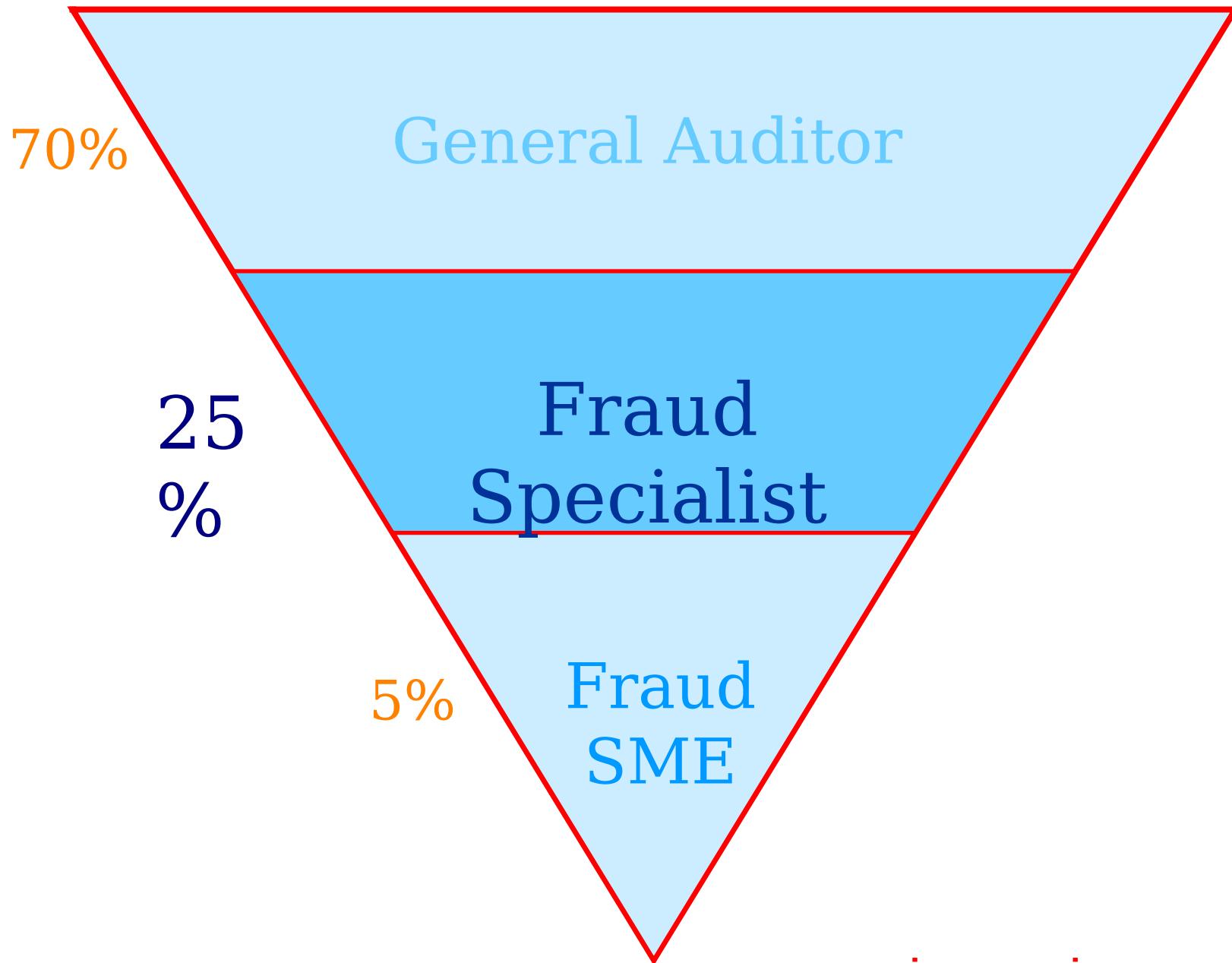
# Fraud Expertise Deployment

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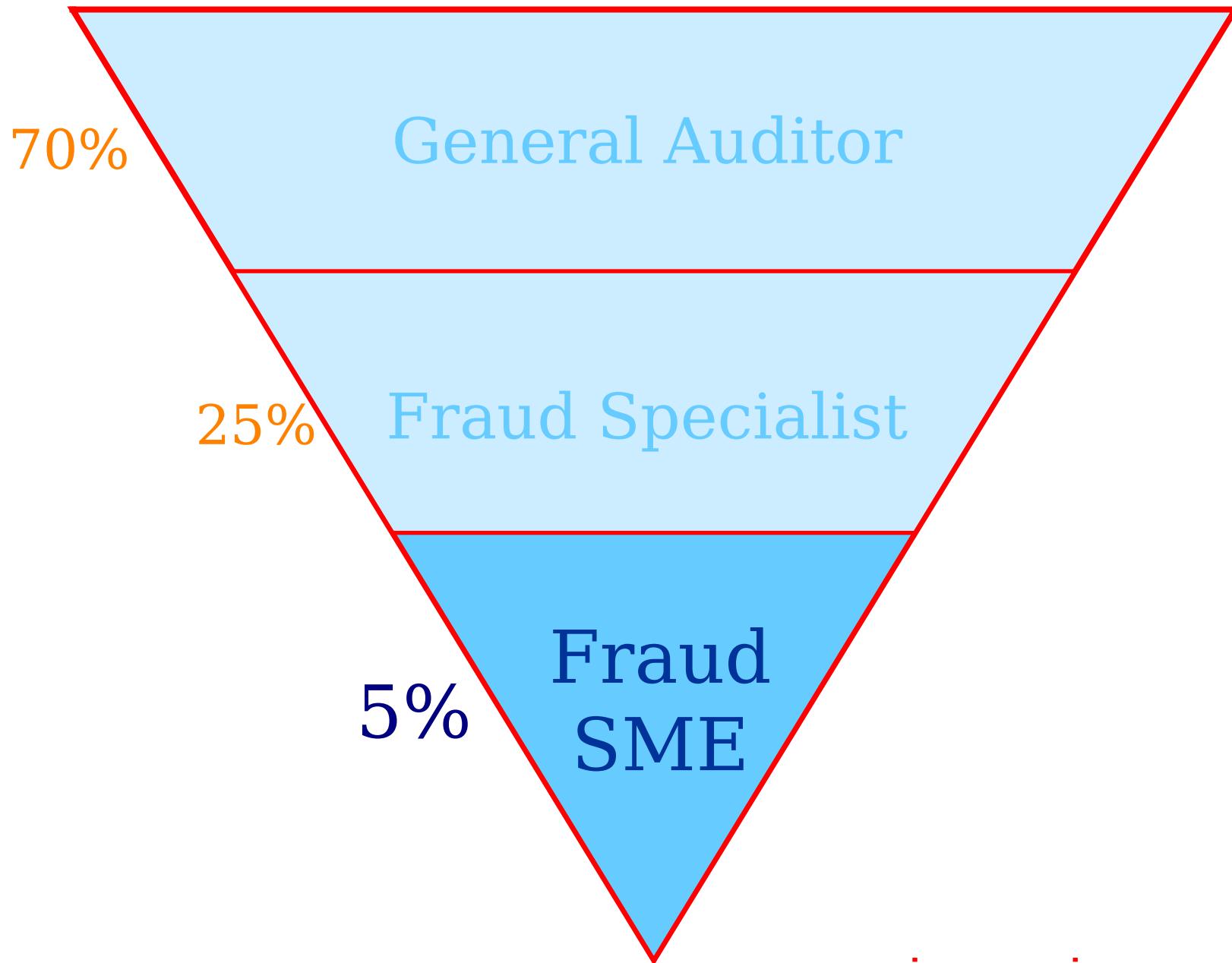
# Fraud Expertise Deployment

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# Fraud Expertise Deployment

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**“Do”**

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**Loss Prevention  
should partner  
with Internal Audit**

**“Do”**

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**Think  
Like a  
Thief**

“Do”

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**Trust but Verify**

Credo

**“Do”**

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**Get your staff the  
right Training**

**“Do”**

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**Perform Routine  
Fraud Audits  
that include  
Data Mining**

# Tom Golden Truism

# 2

“The very best fraud prevention mechanism is to put forth the *perception* that... if you do something wrong, you will be caught... and the punishment will be swift and severe.”

**“Do”**

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**Get off of those operational  
audits**

**and**

**get back to your  
roots**

**Return to the  
Days of the  
Pharaohs**

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paradigm

## **“Don’ts”**

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**Don’t approach like an audit...**

**Investigation is more  
intuitive  
than process driven**

# “Don’ts”

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- **Don’t confront**

# “Don’ts”

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- Don't confront

**■ Don't fire**

# “Don’ts”

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- Don't confront
- Don't fire

**■ Don't assume**

# “Don’ts”

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- Don't confront
- Don't fire
- Don't assume

**■ Don't ignore the small stuff**

# “Don’ts”

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- Don't confront
- Don't fire
- Don't assume
- Don't ignore the small stuff

**■ Don't Rely on Others to Detect and Deter Fraud**

# **Tom Golden Truism # 3**

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“People need to know their areas of responsibility, their limits of authority, and people need to be *monitored.*”

# Question s?



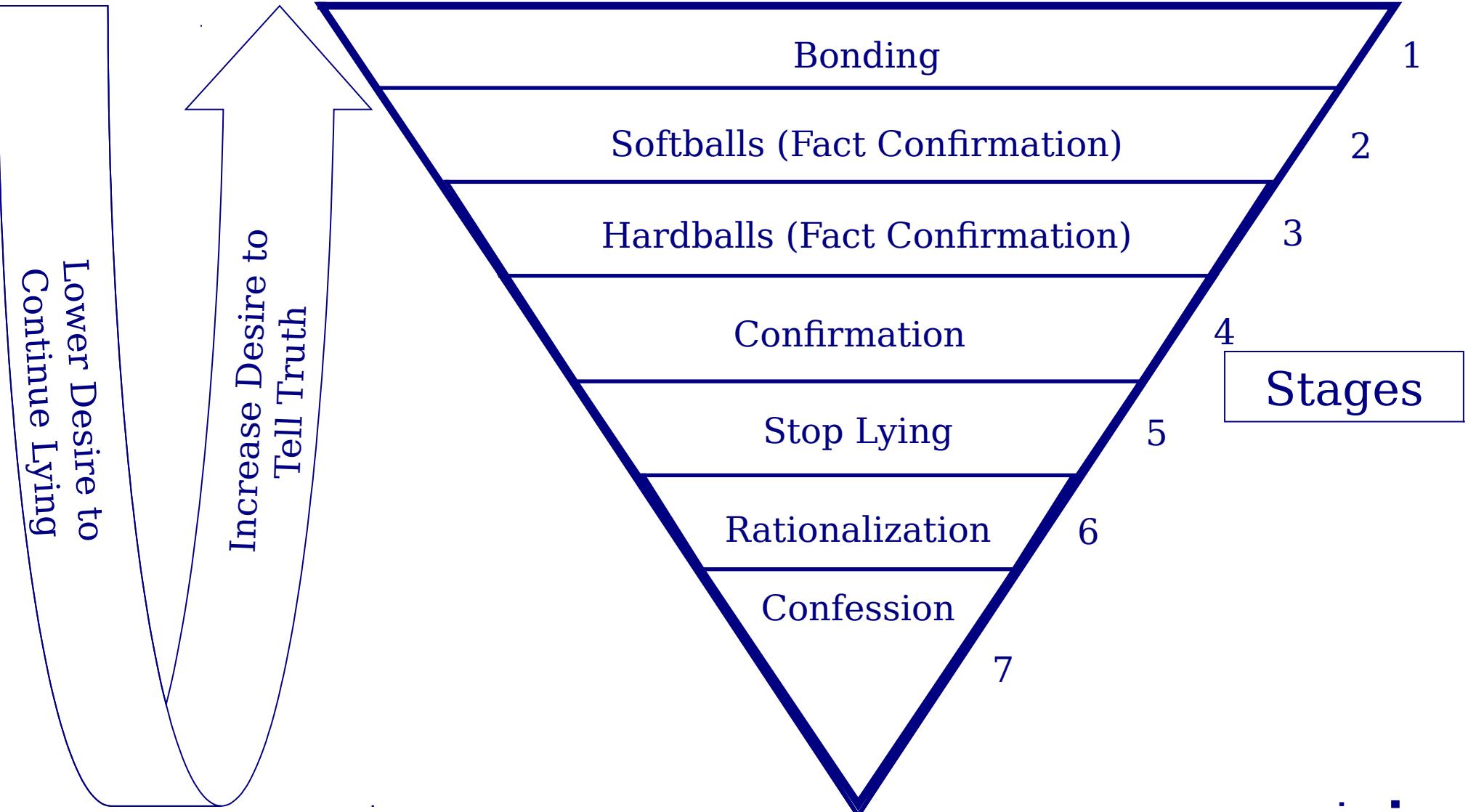
## ■ The "Interview"

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# A CONVERSATION WITH A PURPOSE

# Admission-Seeking Interview Process

Goals



Seven Steps to Winning the Confession